

Financial Statements

Village of Shepherd

February 28, 2007



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Shepherd	County Isabella
Fiscal Year End February 2007	Opinion Date August 23, 2007	Date Audit Report Submitted to State September 6, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

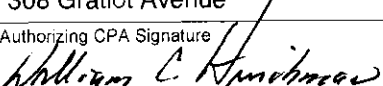
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, PC		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
		Zip 48801	
Authorizing CPA Signature 		Printed Name William C. Hirschman	License Number 1101016179

Village of Shepherd
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INDEPENDENT AUDITOR'S REPORT

Village of Shepherd
Shepherd, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shepherd (the Village) as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village as of February 28, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 2007 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison shown in this report are not a required part of the basic financial statements but are supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

August 23, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

VILLAGE OF SHEPHERD
Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances.

Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets increased by 4.174% from a year ago - increasing from \$2,691,148 to \$2,803,495. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities increased by \$32,842 during the year. The net assets of the business-type activities increased by \$79,505 during the year.

The table below shows a condensed statement of net assets as of February 28, 2007:

	Governmental Activities	Business-Type Activities	Total
Current Assets	\$1,267,420	\$276,280	\$1,543,700
Noncurrent Assets	374,124	2,883,771	3,257,895
Total Assets	1,641,544	3,160,051	4,801,595
Current Liabilities	605,283	193,032	798,315
Non-current Liabilities	39,785	1,160,000	1,199,785
Net Assets:			
Invested in Capital Assets, Net	296,039	1,533,771	1,829,810
Restricted	274,844	-	274,844
Unrestricted	425,593	273,248	698,841
Total net assets	996,476	1,807,019	2,803,495

The current level of unrestricted net assets for our governmental activities stands at \$425,593.

Expenditures of the governmental funds decreased by about \$ 72,886 during the year, which was expected from the budget that was set.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 90% of Village residents, which comes from the Village water system. We provide sewage treatment to approximately 95% of Village residents, through the Village sewage treatment plant.

VILLAGE OF SHEPHERD Management's Discussion and Analysis

The Village's Funds

Our analysis of the Village's major funds begins on page 3, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property taxes.

The General Fund pays for most of the Village's governmental services. The amount transferred to the General Fund is supported by a detailed calculation of the current year costs of the specific capital outlay approved by the Village Board.

General Fund Budgetary Highlights

There were no significant changes.

Capital Asset and Debt Administration

At the end of 2007, the Village still had \$3,257,895 invested in a broad range of capital assets, including buildings, police, and water and sewer lines. In addition, the Village has invested significantly in major roads within the Village, along with some minor local street improvements. These assets are not reported in the Village's financial statements because of Michigan law, which makes these roads the property of the County Road Commission (along with the responsibility to maintain them).

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2007-2008 is very similar to the previous year. The Village will still need to continue to watch its budget very closely with some of the projects that are scheduled for the year.

Contacting Village Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village at 251 W. Wright Avenue, Shepherd, Michigan, 48883. The Village phone number is (989) 828-5278.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

Village of Shepherd
Statement of Net Assets
February 28, 2007, With Comparative Data

	Governmental Activities	Business-Type Activities	Total	2006
Assets				
Current assets				
Cash and cash equivalents	\$611,002	\$251,696	\$862,698	\$785,937
Accounts receivable, net	608,017	13,784	621,801	677,994
Due from other governmental units	48,401	-	48,401	49,966
Inventory	-	10,800	10,800	10,800
Total current assets	1,267,420	276,280	1,543,700	1,524,697
Noncurrent assets				
Capital assets - depreciable, net	374,124	2,883,771	3,257,895	3,428,199
Total assets	1,641,544	3,160,051	4,801,595	4,952,896
Liabilities				
Current liabilities				
Accounts payable	5,178	1,506	6,684	28,597
Accrued wages and other payroll liabilities	6,593	1,526	8,119	10,820
Deferred revenue	555,212	-	555,212	567,375
Current portion of long-term debt	38,300	190,000	228,300	226,871
Total current liabilities	605,283	193,032	798,315	833,663
Noncurrent liabilities				
Capital lease	39,785	1,160,000	1,199,785	1,428,085
Net Assets				
Invested in capital assets, net of related debt	296,039	1,533,771	1,829,810	1,773,243
Restricted for debt service	274,844	-	274,844	272,044
Unrestricted	425,593	273,248	698,841	645,861
Total net assets	\$996,476	\$1,807,019	\$2,803,495	\$2,691,148

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Activities
For the year ended February 28, 2007, With Comparative Data

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities
Functions/Programs					Total	2006
Governmental activities						
General government	196,442	\$60,468	-	-	(\$135,974)	(\$76,479)
Public safety	169,009	-	-	-	(169,009)	(150,621)
Public works	270,209	-	-	-	(270,209)	(572,314)
Recreation and culture	3,218	-	-	-	(3,218)	(5,865)
Capital outlay	3,780	-	-	-	(3,780)	(9,347)
Debt service	252,647	283,578	-	-	30,931	146,330
Other expenditures	101,085	-	-	-	(101,085)	(103,759)
Total governmental activities	996,390	344,046	-	-	(652,344)	(772,055)
Business-type activities						
Water and sewer	218,073	110,994	-	-	-	(127,419)
Total	\$1,214,463	\$455,040	-	-	(652,344)	(899,474)
General revenues and transfers						
Taxes						
State shared revenues					340,475	317,965
Unrestricted investment earnings					261,681	264,769
Miscellaneous revenues					16,394	20,063
Transfers					43,136	31,804
					23,500	(12,306)
Total general revenues and transfers					685,186	622,295
Change in net assets					32,842	(277,179)
Net assets - beginning of year					963,634	2,937,596
Prior period adjustment					1,727,514	30,731
Net assets - end of year					\$1,807,019	\$2,691,148

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Village of Shepherd
Balance Sheet
Governmental Funds
February 28, 2007

	Major Funds					Total Governmental Funds
	General	Major Street	Local Street	Police	Debt Service	
Assets						
Cash and cash equivalents	\$256,492	\$44,021	\$75,481	\$29,242	\$148,151	\$553,387
Accounts receivable, net	18,166	-	-	-	589,851	608,017
Due from other governmental units	18,665	14,935	5,012	-	9,789	48,401
Total assets	<u>\$293,323</u>	<u>\$58,956</u>	<u>\$80,493</u>	<u>\$29,242</u>	<u>\$747,791</u>	<u>\$1,209,805</u>
Liabilities						
Accounts payable	\$4,118	\$17	\$0	\$1,043	-	\$5,178
Accrued wages and other payroll liabilities	2,688	906	492	2,507	-	6,593
Deferred revenue	82,265	-	-	-	\$472,947	555,212
Total liabilities	<u>89,071</u>	<u>923</u>	<u>492</u>	<u>3,550</u>	<u>472,947</u>	<u>566,983</u>
Fund balances						
Reserved for debt service	-	-	-	-	-	-
Unreserved	204,252	58,033	80,001	25,692	274,844	642,822
Total fund balances	<u>204,252</u>	<u>58,033</u>	<u>80,001</u>	<u>25,692</u>	<u>274,844</u>	<u>642,822</u>
Total liabilities and fund balances	<u>\$293,323</u>	<u>\$58,956</u>	<u>\$80,493</u>	<u>\$29,242</u>	<u>\$747,791</u>	<u>\$1,209,805</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the year ended February 28, 2007

Total fund balance - governmental funds	\$642,822
Amounts reported for governmental activities in the statement of net assets are different because:	
Internal service funds are used by management to charge the cost of equipment and materials to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	56,344
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	821,609
Deduct: accumulated depreciation	(524,299)
	<hr/>
Net assets of governmental activities	<u><u>\$996,476</u></u>

The notes to the financial statements are an integral part of this statement.

For the year ended February 28, 2007

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended February 28, 2007

Net change in fund balances - total governmental funds	\$42,700
Amounts reported for governmental activities in the statement of activities are different because:	
Internal service funds are used by management to charge the cost of certain activities, such as equipment rents and material usage, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	
	18,951
In the statement of activities, only the gain or loss on the sale of capital assets is reported. In the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of assets sold.	
Add: loss on disposal of capital asset	(4,674)
Less: proceeds on sale of capital assets	(3,500)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	18,673
Deduct: depreciation expense	(31,301)
Other miscellaneous adjustments	<u>(8,007)</u>
Change in net assets of governmental activities	<u><u>\$32,842</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Net Assets
Proprietary Funds
February 28, 2007

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Assets				
Cash and cash equivalents	\$127,539	\$124,157	\$251,696	\$57,615
Accounts receivable, net	5,318	8,466	13,784	-
Inventory	-	10,800	10,800	-
Total current assets	132,857	143,423	276,280	57,615
Capital assets - depreciable, net	1,405,262	1,478,509	2,883,771	76,814
Total assets	\$1,538,119	\$1,621,932	\$3,160,051	\$134,429
Liabilities				
Accounts payable	\$124	\$1,382	\$1,506	-
Accrued wages and other payroll liabilities	829	697	1,526	-
Current portion of long-term debt	190,000	-	190,000	\$38,300
Total current liabilities	190,953	2,079	193,032	38,300
Capital lease	1,160,000	-	1,160,000	39,785
Total liabilities	1,350,953	2,079	1,353,032	78,085
Net assets				
Invested in capital assets, net of related debt	55,262	1,478,509	1,533,771	(1,271)
Unrestricted	131,904	141,344	273,248	57,615
Total net assets	187,166	1,619,853	1,807,019	56,344
Total liabilities and net assets	\$1,538,119	\$1,621,932	\$3,160,051	\$134,429

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended February 28, 2007

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Operating revenues				
Service charges	\$39,759	\$64,355	\$104,114	\$61,704
User fees	105	575	680	-
Hydrant rental	-	6,200	6,200	-
Total operating revenues	39,864	71,130	110,994	61,704
Operating expenses				
Salaries and wages	10,905	22,729	33,634	-
Fringe benefits	797	1,711	2,508	-
Supplies	3,705	15,303	19,008	-
Contracted services	9,993	10,367	20,360	-
Utilities	2,912	8,764	11,676	-
Rentals	-	5,180	5,180	-
Repairs and maintenance	-	9,519	9,519	-
Depreciation	55,590	55,770	111,360	38,142
Miscellaneous	-	4,828	4,828	-
Total operating expenses	83,902	134,171	218,073	38,142
Operating income (loss)	(44,038)	(63,041)	(107,079)	23,562
Non-operating revenues (expenses)				
Interest income	4,125	3,808	7,933	411
Interest expense	-	-	-	(5,022)
Other	166	8,485	8,651	-
Total non-operating revenues (expenses)	4,291	12,293	16,584	(4,611)
Other financing sources (uses)				
Operating transfers in (out)	180,000	(10,000)	170,000	-
Net income	140,253	(60,748)	79,505	18,951
Net assets - beginning of year	46,913	1,680,601	1,727,514	45,400
Prior period adjustment	-	-	-	(8,007)
Net assets - end of year	\$187,166	\$1,619,853	\$1,807,019	\$56,344

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Combining Statement of Cash Flows
Proprietary Funds
For the year ended February 28, 2007

	Business-Type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund		
Cash flows from operating activities:				
Receipts from customers	\$42,077	\$74,342	\$116,419	\$61,704
Payments to suppliers / outsiders	(16,128)	(54,337)	(70,465)	-
Payments to employees	(11,702)	(24,075)	(35,777)	-
Net cash provided by operating activities	14,247	(4,070)	10,177	61,704
Cash flows from non-capital financing activities:				
Operating transfers in	190,000	-	190,000	-
Operating transfers (out)	(10,000)	(10,000)	(20,000)	-
Net cash provided by non-capital financing activities	180,000	(10,000)	170,000	-
Cash flows from capital and related financing activities:				
Interest payments	-	-	-	(5,022)
Principal payments	(190,000)	-	(190,000)	(44,878)
Net cash provided by capital and related financing activities	(190,000)	-	(190,000)	(49,900)
Cash flows from investing activities:				
Interest income	4,125	3,808	7,933	411
Other	166	8,485	8,651	-
Net cash provided by investing activities	4,291	12,293	16,584	411
Net increase (decrease) in cash and cash equivalents	8,538	(1,777)	6,761	12,215
Cash and cash equivalents - beginning of year	119,001	125,934	244,935	45,400
Cash and cash equivalents - end of year	<u>\$127,539</u>	<u>\$124,157</u>	<u>\$251,696</u>	<u>\$57,615</u>
Cash flows from operating activities:				
Income from operations	(\$44,038)	(\$63,041)	(\$107,079)	23,562
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	55,590	55,770	111,360	38,142
(Increase) decrease in: Accounts receivable	2,213	3,212	5,425	-
Increase (decrease) in: Accounts payable	(11)	(376)	(387)	-
Accrued expenses	493	365	858	-
Other	-	-	-	-
Net cash provided by operating activities	<u>\$14,247</u>	<u>(\$4,070)</u>	<u>\$10,177</u>	<u>\$61,704</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Village of Shepherd (the Village) is a General Law Village incorporated under PA 3 of 1895. The Village operates under a 7-member elected Village Council and provides a wide range of municipal services to Village residents. The accompanying financial statements present the Village and its component units, entities for which the government is considered financially accountable. The reporting entity of the Village excludes the Shepherd Tri-Township Fire Department in accordance with the criteria established by the National Council on Governmental Accounting Statements Number 3. This entity is considered a joint venture of the local units involved.

Jointly Governed Organization

The Village, in conjunction with Coe, Lincoln, and Chippewa Townships, entered into an agreement to operate the Shepherd Tri-Township Fire Department. Its purpose is to provide fire protection to the residents in the tri-township area. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Village Statement Number 14.

Based on the application of these criteria, the financial statements of the Shepherd Tri-Township Fire Department, a joint venture which operates autonomously under a service agreement among the participating units, are not included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Village of Shepherd Notes To The Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Village's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Exceptions to this general rule include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year-end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Village of Shepherd Notes To The Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village are charges to customers for water, sewer, and trash services. Operating expenses for the enterprise funds include the cost of administration expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the Village as a trustee or agency capacity on behalf of others and, therefore, are not available to support Village operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the Village available to support Village's operations. The Village currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections and employee withholdings.

Fund Accounting

The financial activities of the Village are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Village uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Village that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in other funds.

Village of Shepherd
Notes To The Financial Statements

Special Revenue Funds - The special revenue funds account for the revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

Debt Service Funds – The debt service fund is used to record special assessments collected, interest, and other revenue for payment of principal, interest, and other expenditures on the Storm Water Separation Project debt.

Proprietary Funds

Water and Sewer Funds - These funds report operations that provide water and sewer services which are financed primarily by user charges to external parties, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Internal Service Fund – This fund reports operations that provide services which are financed primarily by user charges to other funds on a cost-reimbursement basis.

Management has decided to classify all governmental and proprietary funds as major funds.

In addition to the governmental and proprietary funds the Village has the following other funds:

Agency Fund

The Village maintains agency funds to account for property tax collections and payroll related withholdings.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Taxes

The Village's property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31st. Taxes are payable to the Village from July 1, to March 1, at which time they are turned over to the County for reimbursement from its revolving tax fund.

It is the Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

Village of Shepherd
Notes To The Financial Statements

The 2006 taxable valuation of the Village totaled \$24.4 million, on which ad valorem taxes levied consisted of 12.0 mills for operating purposes and 1.00 mills for highways, raising \$292 thousand for operating purposes, and \$24 thousand for emergency services. These amounts are recognized in the general fund and major street fund.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds". Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

All trade receivables are shown as net of allowance for uncollectible amounts.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, for the Village's business-type activities. For all other funds, the Village does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Village of Shepherd
Notes To The Financial Statements

Capital assets of the Village are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings & Improvements	40 – 50
Machinery & Equipment	5 – 20
Vehicles	5 – 10

Deferred Revenue

Deferred revenues arise when the Village receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Village of Shepherd
Notes To The Financial Statements

Grants

Grants are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Village's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Prior to March 1st a proposed budget for the next fiscal year is prepared and presented to the Village council, along with recommendations. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following March 1st. The council holds public hearings and final budgets are adopted prior to March 1st.

Prior to March 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

The Village Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year. The Village does not maintain a formalized encumbrance accounting system.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Village of Shepherd
Notes To The Financial Statements

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated. These are shown as negative variances on the budget pages included in this report.

NOTE 3 – DETAILED NOTES

Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorized the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

At February 28th the carrying amount of the Village's cash and cash equivalents are as follows:

Cash and Cash Equivalents	2007	2006
Petty Cash	\$97	\$90
Checking, Savings, & Money Market Accounts	495,099	515,557
Certificates of Deposit	367,502	270,290
Total	\$862,698	\$785,937

At February 28, 2007 the bank balance was \$882,677. The difference between the bank balance and the carrying amount shown above is due to outstanding deposits and checks. Of the bank balance, \$400,000 was covered by federal depository insurance and \$482,677 was uninsured and uncollateralized. Some of the deposits which exceed FDIC insurance coverage are held at local banks. The carrying amount shown above approximates its fair value.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Village of Shepherd
Notes To The Financial Statements

Accounts Receivable

Accounts receivable as of February 28th, consists of the following:

Fund / Receivable	2007	2006
General Fund:		
Trash	\$18,166	\$10,186
Debt Service Fund – Storm Water Separation Project:		
Special Assessments	589,851	648,567
Police Fund:		
Reimbursement	-	32
Water Fund:		
Water Fees	8,466	11,678
Sewer Fund:		
Sewer Fees	5,318	7,531
Total	\$621,801	\$677,994

Due From Other Governmental Units

Due from other governmental units as of February 28th, consists of the following:

Fund / Due From	2007	2006
General Fund:		
County of Isabella – Property Taxes	\$18,665	\$17,654
Major Street:		
State of Michigan	14,077	14,224
Other	858	-
Local Street:		
State of Michigan	5,012	5,067
Debt Service Fund – Storm Water Separation Project:		
County of Isabella – Property Taxes	9,789	13,021
Total	\$48,401	\$49,966

Village of Shepherd
Notes To The Financial Statements

Interfund Receivables, Payables and Transfers

Transfers between funds during the year were as follows:

Receiving Fund	Amount Received	Paying Fund	Amount Paid
Major Street Fund	\$24,487	General Fund	\$24,487
Police Fund	110,000	General Fund	110,000
Local Street Fund	19,526	Major Street Fund	19,526
Debt Service Fund	20,000	Water Fund	10,000
		Sewer Fund	10,000
Total Interfund Transfers	\$174,013		\$174,013

Transfers are used to provide resources from unrestricted general fund revenues to finance various programs accounted for in other funds, in accordance with budgetary authorizations. In addition, the Major Street Fund is allowed under Act 51 to share a portion of its gas and weight tax revenues with the Local Street Fund. The Water and Sewer Funds transfer amounts to the Debt Service Fund to help cover the cost of the principle and interest on the Storm Water Separation Project Debt.

Capital Assets

Capital assets activity for the year ended February 28, 2006 for the *governmental activities* was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Land	\$10,000	-	-	\$10,000
Buildings & Improvements	253,800			253,800
Machinery & Equipment	328,558	-	-	328,558
Vehicles	459,038	18,673	20,194	457,517
Sub-total	1,051,396	18,673	20,194	1,049,875
ACCUMULATED DEPR:				
Buildings & Improvements	(88,656)	(4,836)	-	(93,492)
Machinery & Equipment	(214,566)	(17,604)	-	(232,170)
Vehicles	(315,106)	(47,003)	(12,020)	(350,089)
Sub-total	(618,328)	(69,443)	(12,020)	(675,751)
NET CAPITAL ASSETS	\$433,068	(\$50,770)	\$8,174	\$374,124

Village of Shepherd
Notes To The Financial Statements

Capital assets activity for the year ended February 28, 2007 for the *business-type* activities was as follows:

Business-Type	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Land	\$31,186	-	-	\$31,186
Buildings & Improvements	4,502,350	-	-	4,502,350
Machinery & Equipment	103,397	-	-	103,397
Sub-total	4,636,933	-	-	4,636,933
ACCUMULATED DEPR:				
Buildings & Improvements	(1,580,977)	(109,155)	-	(1,690,132)
Machinery & Equipment	(60,825)	(2,205)	-	(63,030)
Sub-total	(1,641,802)	(111,360)	-	(1,753,162)
NET CAPITAL ASSETS	\$2,995,131	(\$111,360)	-	\$2,883,771

Depreciation expense was charged to programs as follows:

GOVERNMENT ACTIVITIES:	
General Government	\$42,977
Public Safety	2,704
Public Works	23,762
Total Government Activities	69,443
BUSINESS-TYPE ACTIVITIES:	
Water	55,770
Sewer	55,590
Total Business-Type Activities	111,360
Total	\$189,033

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental fund also defer revenue recognition in connection with resources that have been received but not yet earned.

Village of Shepherd
Notes To The Financial Statements

At the end of the current fiscal year the various components of deferred revenue reported in the governmental funds were as follows:

Deferred Revenue	2007	2006
Special Assessments Not Yet Due	\$472,947	\$567,375
Walktrail Grant	82,265	-
Total	\$555,212	\$567,375

Storm Water Separation Project

During the 1994-95 fiscal years the Village of Shepherd contracted with the Isabella County Department of Public Works (DPW) for the construction associated with the improvements of the Sewer Disposal and Water Systems of the Village.

Beginning with the 1994 tax levy, a special assessment was established against Village property owners in order to provide a portion of the funds needed to service the Isabella County DPW loan. The total special assessment principal balance was \$2,493,341, bears an interest rate of 6.87%, and is being assessed over a twenty year period. Property owners were given the option to pay their portion of the assessment in full at any time to avoid additional interest on the assessment. These advance payments have been recorded as deferred revenue for the portion attributable to years after fiscal year ending February 29, 2000. This amount which has been recognized as deferred revenue is then being recognized as revenue proportionately over the remaining life of the deferral.

The remaining portion of the Isabella County DPW loan is serviced by capital surcharges which were added to customers quarterly water bills. The water capital surcharge is 80 cents per 1,000 gallons of water used. The sewer capital surcharge is also 80 cents per 1,000 gallons of water used. Special assessment collection activities and the capital surcharges are accounted for in the Storm Water Separation Project Debt Service Fund.

Long-Term Debt

Capital Leases

The Village entered into a capital lease arrangement for financing the Waste Water Sanitary Improvement Facility. The lease agreement was entered into on January 1, 1999 and the present value of the minimum lease payments at that time was \$2,460,000.

The Village also entered into a capital lease arrangement for financing several vehicles used to service the Village. The lease agreement was entered into on April 10, 2004 and the present value of the minimum lease payments at that time was \$190,710.

The lease agreements qualify as capital leases for accounting purposes and, therefore, a capital asset has been recorded at the present value of the minimum lease payments as of the date of each lease. Additional information regarding these leases can be found in the back of this report.

Village of Shepherd
Notes To The Financial Statements

Compensated Absences

VACATION

Employees are allowed to accumulate and carry forward up to 48 hours of vacation time. Amounts accumulated are to be paid to the employee either when vacation time is actually taken or upon termination of employment. These financial statements do not reflect a liability for unused vacation hours since the amount is not material.

SICK

Sick leave is earned at the rate of 96 hours per year for full-time employees, not to exceed 90 days and a pro-rata number of hours for part-time employees. Upon termination of employment, all sick leave benefits are forfeited. These financial statements do not reflect a liability for unused sick leave hours since they do not vest or accumulate from year to year.

The changes in long-term debt during the fiscal year ended February 28, 2007 are as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Capital Leases	\$1,654,956	-	\$226,871	\$1,428,085

The annual requirements to pay principal and interest on the obligations outstanding at February 28, 2007 are as follows. Interest expense totals \$221,647.

For The Fiscal year Ending February 28,	Amount
2008	286,682
2009	278,655
2010	229,205
2011	220,940
2012 and thereafter	\$631,250

Joint Venture

The Village is a member of the Shepherd Tri-Township Fire Department, which is a joint venture between the Village and Chippewa, Coe, and Lincoln Townships. All units are located in Isabella County. Each unit names two members and an alternate from its governmental body to serve as the Fire Department's Advisory Board. The Advisory Board is responsible for adopting the annual budget. Under the arrangement, each unit bears its share of the cost according to a formula which takes the ratio of population and state equalized valuation which each unit involved bears to the total population and state equalized valuation of all units and averages the two. Annual contributions are made based upon the budget.

Village of Shepherd
Notes To The Financial Statements

The following financial information of the joint venture was obtained from the audited financial statements of the Shepherd Tri-County Fire Department for the year ended November 30, 2006, the most recent financial statements available:

Total Assets	\$179,713
Total Liabilities	-
Total Equity	179,713
Total Revenues	232,741
Total Expenditures	214,296

Fixed assets at cost, which are not included in the above numbers, totaled \$1,790,190.

For the Fire Department's year ended November 30, 2006 the share of the annual budget for each participating unit was:

Governmental Unit	Share of Budget
Village of Shepherd	14%
Chippewa Township	45%
Lincoln Township	22%
Coe Township	19%
Total	100%

Pension Plan

Plan Description

The Village of Shepherd participates in the Michigan Municipal Employees Retirement System (MERS), which is an agent multiple-employer public employee retirement system. All full-time employees (excluding officials) of the Village are eligible to participate in the system. General Village and Police Department employees who retire at or after the age of 60 with 10 years of credited service are entitled to retirement benefits payable monthly for life, equal to 1.7% of their final average compensation. Employees who retire at age 55 with 15 or more years of credited service are entitled to reduced benefits. There is no mandatory retirement. Deferred retirement is provided by MERS. MERS also provides for death and disability benefits. Benefits are established by Michigan Public Act 427 of 1984.

Funding Policy

The Village adopted Benefit E for 1989 which provides a one-time benefit increase to present retirees and beneficiaries equal to two percent of the present benefits times the number of years since the later of retirement or the last Benefit E increase (Benefit E may be readapted from time to time). Beginning March 1, 1990 the Village adopted Benefit E-1. This plan provides automatic 2.5% annual non-compounded benefit increases to persons (and their beneficiaries) retired before the effective date of Benefit E-1. Cumulative increases are limited to increases in the consumer price index.

Village of Shepherd
Notes To The Financial Statements

The Village has the responsibility for making actuarially determined contributions to MERS. The required contributions are zero. The employees made contributions of 2% of annual compensation during the fiscal year ended February 28, 2007.

The following table presents information required by GASB Statements Number 25 and 27. This information is as of December 31, 2006.

GASB 25 INFORMATION	
Actuarial Accrued Liability:	
Retirees and Beneficiaries Currently Receiving Benefits	\$103,301
Terminated Employees Not Yet Receiving Benefits	35,338
Non-vested Terminated Employees (pending refunds of accumulated member contributions)	663
Current Employees – Accumulated Employee Contributions Including Allocated Investment Income	25,471
Employer Financed	87,938
Total Actuarial Accrued Liability	252,711
Net Assets Available For Benefits At Actuarial Value (market value \$395,862)	390,401
Unfunded (Overfunded) Actuarial Accrued Liability	(\$137,690)
GASB 27 INFORMATION	
Fiscal Year Beginning	March 1, 2008
Annual Required Contributions (ARC)	\$0
Amortization Factor Used – Underfunded Liabilities (33 years)	.054719
Amortization Factor Used – Underfunded Liabilities (10 years)	.119963

Three year trend information as of December 31st follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered payroll
12-31-04	\$347,686	\$196,074	(\$151,612)	177%	\$183,806	82%
12-31-05	365,385	224,930	(140,455)	162%	204,268	69%
12-31-06	390,401	252,711	(137,690)	154%	206,581	67%

Village of Shepherd
Notes To The Financial Statements

Risk Management

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Village has purchased commercial insurance from independent insurance providers for property loss, professional liability, and employee injuries (worker's compensation).

Settled claims, if any, for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Segment Information

The Village maintains two enterprise funds which provides water and sewer services. Segment information for the year ended February 28, 2007 is as follows:

	Sewer Fund	Water Fund
Operating Revenues	\$39,864	\$71,130
Depreciation Expense	55,590	55,770
Operating Income Or (Loss)	(44,038)	(63,041)
Operating Transfers In (Out)	(10,000)	(10,000)
Net Income (Loss)	140,253	(60,748)
Plant, Property And Equipment Additions	-	-
Net Working Capital	(58,096)	2,079
Total Equity	187,166	1,619,853

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the year ended February 28, 2007

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$318,334	\$318,334	\$340,475	\$22,141
Special assessments	-	-	-	-
State shared revenues	155,000	155,000	155,334	334
Charges for services	49,600	49,600	60,468	10,868
Interest and rents	1,100	1,100	2,469	1,369
Miscellaneous	17,700	17,700	19,041	1,341
Total revenues	541,734	541,734	577,787	36,053
Expenditures				
General government	123,339	128,698	115,323	13,375
Public safety	51,200	62,200	52,200	10,000
Public works	170,930	169,707	169,104	603
Recreation and culture	4,700	3,370	3,218	152
Capital outlay	1,000	1,000	3,780	(2,780)
Debt service	-	-	-	-
Other expenditures	103,835	111,025	101,085	9,940
Total expenditures	455,004	476,000	444,710	31,290
Excess of revenues over (under) expenditures	86,730	65,734	133,077	67,343
Other financing sources (uses)				
Gain (Loss) on disposal of fixed assets	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers (out)	(134,487)	(134,487)	(134,487)	-
Total other financing sources (uses)	(134,487)	(134,487)	(134,487)	-
Excess of revenues and other sources over (under) expenditures and other uses	(47,757)	(68,753)	(1,410)	67,343
Fund balance, beginning of year	205,662	205,662	205,662	-
Fund balance, end of year	\$157,905	\$136,909	\$204,252	\$67,343

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Street Fund
For the year ended February 28, 2007

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$79,000	\$79,000	\$77,956	(\$1,044)
Charges for services	-	-	-	-
Interest and rents	500	500	600	100
Miscellaneous	-	-	-	-
Total revenues	79,500	79,500	78,556	(944)
Expenditures				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	82,627	85,002	57,113	27,889
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	82,627	85,002	57,113	27,889
Excess of revenues over (under) expenditures	(3,127)	(5,502)	21,443	26,945
Other financing sources (uses)				
Gain (Loss) on disposal of fixed assets	-	-	-	-
Operating transfers in	24,487	24,487	24,487	-
Operating transfers (out)	(19,750)	(19,750)	(19,526)	224
Total other financing sources (uses)	4,737	4,737	4,961	224
Excess of revenues and other sources over (under) expenditures and other uses	1,610	(765)	26,404	27,169
Fund balance, beginning of year	31,629	31,629	31,629	-
Fund balance, end of year	\$33,239	\$30,864	\$58,033	\$27,169

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Street Fund
For the year ended February 28, 2007

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$28,000	\$28,000	\$27,757	(\$243)
Charges for services	-	-	-	-
Interest and rents	600	600	1,238	638
Miscellaneous	-	-	1,438	1,438
Total revenues	28,600	28,600	30,433	1,833
Expenditures				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	55,524	55,524	20,230	35,294
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	55,524	55,524	20,230	35,294
Excess of revenues over (under) expenditures	(26,924)	(26,924)	10,203	37,127
Other financing sources (uses)				
Gain (Loss) on disposal of fixed assets	-	-	-	-
Operating transfers in	19,750	19,750	19,526	(224)
Operating transfers (out)	-	-	-	-
Other financing sources (uses)	19,750	19,750	19,526	(224)
Excess of revenues and other sources over (under) expenditures and other uses	(7,174)	(7,174)	29,729	36,903
Fund balance, beginning of year	50,272	50,272	50,272	-
Fund balance, end of year	\$43,098	\$43,098	\$80,001	\$36,903

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Police Fund
For the year ended February 28, 2007

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$650	\$650	\$634	(16)
Charges for services	-	-	-	-
Interest and rents	6,300	6,300	3,125	(\$3,175)
Miscellaneous	775	775	696	(79)
Total revenues	7,725	7,725	4,455	(3,270)
Expenditures				
General government	-	-	-	-
Public safety	117,439	124,991	132,778	(7,787)
Public works	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	117,439	124,991	132,778	(7,787)
Excess of revenues over (under) expenditures	(109,714)	(117,266)	(128,323)	(11,057)
Other financing sources (uses)				
Gain (Loss) on disposal of fixed assets	-	-	3,500	3,500
Operating transfers in	110,000	110,000	110,000	-
Operating transfers (out)	-	-	-	-
Total other financing sources (uses)	110,000	110,000	113,500	3,500
Excess of revenues and other sources over (under) expenditures and other uses	286	(7,266)	(14,823)	(7,557)
Fund balance, beginning of year	40,515	40,515	40,515	-
Fund balance, end of year	\$40,801	\$33,249	\$25,692	(\$7,557)

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

SCHEDULE OF LONG-TERM DEBT

Village Of Shepherd
Balance Sheet
General Fund
February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$256,492	\$197,129
Accounts receivable, net	18,166	10,186
Due from other governmental units	<u>18,665</u>	<u>17,654</u>
Total assets	<u>\$293,323</u>	<u>\$224,969</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$4,118	\$12,293
Accrued wages and other payroll liabilities	2,688	7,014
Deferred revenue	<u>82,265</u>	<u>-</u>
Total liabilities	<u>89,071</u>	<u>19,307</u>
Fund balance		
Unreserved, undesignated	<u>204,252</u>	<u>205,662</u>
Total fund balance	<u>204,252</u>	<u>205,662</u>
Total liabilities and fund balance	<u>\$293,323</u>	<u>\$224,969</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
For The Years Ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Taxes and penalties	\$340,475	\$317,965
State grants	155,334	157,865
Charges for services	60,468	47,470
Interest and rents	2,469	2,775
Other revenue	<u>19,041</u>	<u>19,093</u>
Total revenues	<u>577,787</u>	<u>545,168</u>
Expenditures		
General government	115,323	104,084
Public safety	52,200	40,794
Public works	169,104	162,199
Recreation and culture	3,218	5,865
Other expenditures	101,085	103,459
Capital outlay	<u>3,780</u>	<u>9,347</u>
Total expenditures	<u>444,710</u>	<u>425,748</u>
Excess (deficiency) of revenues over (under) expenditures	<u>133,077</u>	<u>119,420</u>
Other financing sources (uses)		
Operating transfers in	-	-
Operating transfers out	<u>(134,487)</u>	<u>(165,403)</u>
Total other financing sources (uses)	<u>(134,487)</u>	<u>(165,403)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,410)	(45,983)
Fund balance, beginning of year	<u>205,662</u>	<u>251,645</u>
Fund balance, end of year	<u><u>\$204,252</u></u>	<u><u>\$205,662</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Expenditures
General Fund
For The Years Ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
General government		
Legislative		
Village council		
Salaries and wages	\$29,364	\$20,680
Training and education	150	1,430
Printing and publishing	2,918	2,628
Dues and subscriptions	1,603	1,188
Miscellaneous	246	1,713
	<u>34,281</u>	<u>27,639</u>
Village Manager		
Salaries and wages	820	-
Elections board		
Printing and supplies	300	300
Assessor and building inspector		
Salaries and wages	600	600
Legal and professional		
Contracted services	10,650	10,500
Clerk and treasurer		
Salaries and wages	26,274	35,711
Office supplies	2,642	3,392
Contracted services	1,466	1,049
Training and education	-	661
Communications	2,168	1,983
Miscellaneous	65	271
	<u>32,615</u>	<u>43,067</u>
Building and grounds		
Operating supplies	15,543	6,478
Repairs and maintenance	3,361	1,444
Communications	4,444	4,027
Utilities	8,989	8,232
Contracted services	1,070	278
Miscellaneous	2,650	1,519
	<u>36,057</u>	<u>21,978</u>
 Total general government	 <u>115,323</u>	 <u>104,084</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Expenditures
General Fund
For The Years Ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Public safety		
Fire Department		
Salaries and wages	2,284	-
Contracted services	49,916	40,794
	<u>52,200</u>	<u>40,794</u>
Public works		
Salaries and wages	40,483	37,014
Supplies	7,960	9,489
Contracted services	4,290	2,121
Repairs	5,533	6,322
Trash	55,184	50,059
Equipment rental	34,561	34,997
Miscellaneous	750	3,789
Utilities	20,343	18,408
	<u>169,104</u>	<u>162,199</u>
Recreational and cultural		
City park		
Salaries and wages	2,485	3,103
Supplies	295	102
Utilities	38	2,180
Equipment rental	400	480
	<u>3,218</u>	<u>5,865</u>
Other expenditures		
Employee insurances and fringes	51,895	49,070
Insurance	39,661	45,377
Payroll taxes	9,417	8,152
Other	112	860
	<u>101,085</u>	<u>103,459</u>
Capital outlay	<u>3,780</u>	<u>9,347</u>
Total expenditures	<u><u>\$444,710</u></u>	<u><u>\$425,748</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Combining Balance Sheet
Special Revenue Funds
February 28, 2007

Assets	Major Street	Local Street	Police	Total
Cash and investments	\$44,021	\$75,481	\$29,242	\$148,744
Accounts receivable, net	-	-	-	-
Due from other governmental units	14,935	5,012	-	19,947
Total Assets	<u>\$58,956</u>	<u>\$80,493</u>	<u>\$29,242</u>	<u>\$168,691</u>
Liabilities and fund balance				
Liabilities				
Accounts payable	\$17	\$0	\$1,043	\$1,060
Accrued wages and other payroll liabilities	906	492	2,507	3,905
Total liabilities	<u>923</u>	<u>492</u>	<u>3,550</u>	<u>4,965</u>
Fund balance				
Unreserved, undesignated	<u>58,033</u>	<u>80,001</u>	<u>25,692</u>	<u>163,726</u>
Total fund balance	<u>58,033</u>	<u>80,001</u>	<u>25,692</u>	<u>163,726</u>
Total liabilities and fund balance	<u>\$58,956</u>	<u>\$80,493</u>	<u>\$29,242</u>	<u>\$168,691</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds
For The Year Ended February 28, 2007

	Major Street	Local Street	Police	Total
Revenues				
State grants	\$77,956	\$27,757	\$634	\$106,347
Fines and forfeits	-	-	696	696
Interest	600	1,238	3,125	4,963
Other revenue	-	1,438	-	1,438
Total revenues	78,556	30,433	4,455	113,444
Expenditures				
Salaries and wages	13,406	9,663	64,349	87,418
Fringe benefits	926	650	23,450	25,026
Supplies	3,096	3,315	1,718	8,129
Gasoline	-	-	3,526	3,526
Contracted services	25,598	-	6,937	32,535
Auto	-	-	3,413	3,413
Communications	-	-	3,427	3,427
Utilities	191	-	-	191
Rentals	13,041	6,144	-	19,185
Repairs and maintenance	855	458	-	1,313
Equipment	-	-	18,673	18,673
Grant Expenditures	-	-	7,185	7,185
Miscellaneous	-	-	100	100
Total expenditures	57,113	20,230	132,778	210,121
Excess of revenues over (under) expenditures	21,443	10,203	(128,323)	(96,677)
Other financing sources (uses)				
Gain (Loss) on disposal of fixed assets	-	-	3,500	3,500
Transfers in	24,487	19,526	110,000	154,013
Transfers (out)	(19,526)	-	-	(19,526)
Total other financing sources (uses)	4,961	19,526	113,500	137,987
Excess of revenues and other financing sources over (under) expenditures and other financing uses	26,404	29,729	(14,823)	41,310
Fund balance, beginning of year	31,629	50,272	40,515	122,416
Fund balance, end of year	\$58,033	\$80,001	\$25,692	\$163,726

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Balance Sheet
Major Street Fund
February 28, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Cash and investments	\$44,021	\$30,154
Due from other governmental units	<u>14,935</u>	<u>14,224</u>
Total assets	<u><u>\$58,956</u></u>	<u><u>\$44,378</u></u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$17	\$12,191
Accrued wages and other payroll liabilities	<u>906</u>	<u>558</u>
Total liabilities	<u>923</u>	<u>12,749</u>
Fund balance		
Unreserved, undesignated	<u>58,033</u>	<u>31,629</u>
Total fund balance	<u>58,033</u>	<u>31,629</u>
Total liabilities and fund balance	<u><u>\$58,956</u></u>	<u><u>\$44,378</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Major Street Fund
For The Years Ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
State grants	\$77,956	\$78,824
Interest	600	1,702
Other revenue	<u>-</u>	<u>2,079</u>
Total revenues	<u>78,556</u>	<u>82,605</u>
Expenditures		
Salaries and wages	13,406	23,378
Fringe benefits	926	1,751
Supplies	3,096	3,666
Contracted services	25,598	280,897
Utilities	191	165
Rentals	13,041	10,456
Repairs and maintenance	855	2,713
Miscellaneous	<u></u>	<u>599</u>
Total expenditures	<u>57,113</u>	<u>323,625</u>
Excess of revenues over (under) expenditures	21,443	(241,020)
Other financing sources (uses)		
Transfers in	24,487	143,097
Transfers (out)	<u>(19,526)</u>	<u>(11,798)</u>
Total other financing sources (uses)	<u>4,961</u>	<u>131,299</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	26,404	(109,721)
Fund balance, beginning of year	<u>31,629</u>	<u>141,350</u>
Fund balance, end of year	<u><u>\$58,033</u></u>	<u><u>\$31,629</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Balance Sheet
Local Street Fund
February 28, 2007 and 2006

Assets	2007	2006
Cash and investments	\$75,481	\$46,029
Due from other governmental units	5,012	5,067
Total assets	<u>\$80,493</u>	<u>\$51,096</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	-	\$546
Accrued wages and other payroll liabilities	\$492	278
Total liabilities	<u>492</u>	<u>824</u>
Fund balance		
Unreserved, undesignated	<u>80,001</u>	<u>50,272</u>
Total fund balance	<u>80,001</u>	<u>50,272</u>
Total liabilities and fund balance	<u>\$80,493</u>	<u>\$51,096</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Local Street Fund
For The Years Ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
State grants	\$27,757	\$28,080
Interest	1,238	926
Other revenue	<u>1,438</u>	<u>10</u>
Total revenues	<u>30,433</u>	<u>29,016</u>
Expenditures		
Salaries and wages	9,663	10,543
Fringe benefits	650	769
Supplies	3,315	4,844
Contracted services	-	26,530
Rentals	6,144	6,032
Repairs and maintenance	458	2,769
Miscellaneous	<u>546</u>	<u>546</u>
Total expenditures	<u>20,230</u>	<u>52,033</u>
Excess of revenues over (under) expenditures	10,203	(23,017)
Other financing sources (uses)		
Transfers in	<u>19,526</u>	<u>11,798</u>
Total other financing sources (uses)	<u>19,526</u>	<u>11,798</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	29,729	(11,219)
Fund balance, beginning of year	<u>50,272</u>	<u>61,491</u>
Fund balance, end of year	<u><u>\$80,001</u></u>	<u><u>\$50,272</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Balance Sheet
Police Fund
February 28, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Cash and investments	\$29,242	\$44,459
Due from other governmental units	<u>-</u>	<u>32</u>
Total assets	<u>\$29,242</u>	<u>\$44,491</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$1,043	\$1,675
Accrued wages and other payroll liabilities	<u>2,507</u>	<u>2,301</u>
Total liabilities	<u>3,550</u>	<u>3,976</u>
Fund balance		
Unreserved, undesignated	<u>25,692</u>	<u>40,515</u>
Total fund balance	<u>25,692</u>	<u>40,515</u>
Total liabilities and fund balance	<u>\$29,242</u>	<u>\$44,491</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Police Fund
For The Years Ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
State grants	\$634	-
Fines and forfeits	696	\$693
Interest	3,125	1,038
Other revenue	<u>-</u>	<u>1,803</u>
Total revenues	<u>4,455</u>	<u>3,534</u>
Expenditures		
Salaries and wages	64,349	59,320
Fringe benefits	23,450	21,644
Supplies	1,718	1,262
Gasoline	3,526	3,202
Contracted services	6,937	6,661
Auto	3,413	2,871
Telephone	1,715	1,918
Radio	1,712	1,756
Education and training	100	100
Other	-	879
Equipment	18,673	-
Saginaw Chippewa grant expenditures	<u>7,185</u>	<u>7,329</u>
Total expenditures	<u>132,778</u>	<u>106,942</u>
Excess of revenues over (under) expenditures	(128,323)	(103,408)
Other financing sources (uses)		
Gain (Loss) on disposal of fixed assets	3,500	-
Transfers in	<u>110,000</u>	<u>80,000</u>
Total other financing sources (uses)	<u>113,500</u>	<u>80,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(14,823)	(23,408)
Fund balance, beginning of year	<u>40,515</u>	<u>63,923</u>
Fund balance, end of year	<u><u>\$25,692</u></u>	<u><u>\$40,515</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Balance Sheet
Storm Water Separation Project Debt Service Fund
February 28, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Current assets		
Cash and investments	\$148,151	\$177,831
Special assessments receivable - current portion	116,904	81,192
Due from other governmental units	<u>9,789</u>	<u>13,021</u>
Total current assets	274,844	272,044
Long-term assets		
Special assessments receivable	<u>472,947</u>	<u>567,375</u>
Total assets	<u><u>\$747,791</u></u>	<u><u>\$839,419</u></u>
Liabilities and fund balance		
Long-term liabilities		
Deferred special assessments revenue	<u>\$472,947</u>	<u>\$567,375</u>
Total liabilities	<u>472,947</u>	<u>567,375</u>
Fund balance		
Reserved for debt retirement	<u>274,844</u>	<u>272,044</u>
Total fund balance	<u>274,844</u>	<u>272,044</u>
Total liabilities and fund balance	<u><u>\$747,791</u></u>	<u><u>\$839,419</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd
Statement of Revenues, Expenditures and Changes in Fund Balance
Storm Water Separation Project Debt Service Fund
For The Years Ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Special assessment collections	\$146,106	\$146,047
User fee revenues	75,768	75,168
Interest	<u>8,551</u>	<u>8,069</u>
Total revenues	<u>230,425</u>	<u>229,284</u>
Expenditures		
Principal payments	180,000	\$180,000
Interest	67,325	74,885
Miscellaneous	<u>300</u>	<u>300</u>
Total expenditures	<u>247,625</u>	<u>255,185</u>
Excess of revenues over (under) expenditures	(17,200)	(25,901)
Other financing sources (uses)		
Transfers in	<u>20,000</u>	<u>20,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	2,800	(5,901)
Fund balance, beginning of year	<u>272,044</u>	<u>277,945</u>
Fund balance, end of year	<u><u>\$274,844</u></u>	<u><u>\$272,044</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Sewer Fund
February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$127,539	\$119,001
Accounts receivable, net	<u>5,318</u>	<u>7,531</u>
Total current assets	<u>132,857</u>	<u>126,532</u>
Capital assets - depreciable, net	<u>1,405,262</u>	<u>1,460,853</u>
Total assets	<u><u>\$1,538,119</u></u>	<u><u>\$1,587,385</u></u>
Liabilities		
Accounts payable	\$124	\$135
Accrued wages and other payroll liabilities	829	337
Current portion of long-term debt	<u>190,000</u>	<u>190,000</u>
Total current liabilities	<u>190,953</u>	<u>190,472</u>
Capital lease	<u>1,160,000</u>	<u>1,350,000</u>
Total liabilities	<u>1,350,953</u>	<u>1,540,472</u>
Net assets		
Invested in capital assets, net of related debt	55,262	(79,147)
Unrestricted	<u>131,904</u>	<u>126,060</u>
Total net assets	<u>187,166</u>	<u>46,913</u>
Total liabilities and net assets	<u><u>\$1,538,119</u></u>	<u><u>\$1,587,385</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Sewer Fund
For the years ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues		
Service charges	\$39,759	\$41,530
User fees	<u>105</u>	<u>2,560</u>
Total operating revenues	<u>39,864</u>	<u>44,090</u>
Operating expenses		
Salaries and wages	10,905	12,483
Fringe benefits	797	953
Supplies	3,705	4,494
Contracted services	9,993	21,646
Utilities	2,912	2,177
Depreciation	55,590	55,590
Miscellaneous	<u>-</u>	<u>12,340</u>
Total operating expenses	<u>83,902</u>	<u>109,683</u>
Operating income (loss)	(44,038)	(65,593)
Non-operating revenues (expenses)		
Interest income	4,125	2,174
Other	<u>166</u>	<u>21</u>
Total non-operating revenues (expenses)	<u>4,291</u>	<u>2,195</u>
Other financing sources (uses)		
Operating transfers in	190,000	180,000
Operating transfers (out)	<u>(10,000)</u>	<u>(500)</u>
Total other financing sources (uses)	<u>180,000</u>	<u>179,500</u>
Net income	140,253	116,102
Net assets - beginning of year	<u>46,913</u>	<u>(69,189)</u>
Net assets - end of year	<u><u>\$187,166</u></u>	<u><u>\$46,913</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Sewer Fund
For the years ended February 28, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Receipts from customers	42,077	\$46,890
Payments to suppliers / outsiders	(16,128)	(40,951)
Payments to employees	(11,702)	(13,439)
Net cash provided by operating activities	14,247	(7,500)
Cash flows from non-capital financing activities:		
Operating transfers in	190,000	180,000
Operating transfers (out)	(10,000)	(500)
Net cash provided by non-capital financing activities	180,000	179,500
Cash flows from capital and related financing activities:		
Principal payments	(190,000)	(180,000)
Net cash provided by capital and related financing activities	(190,000)	(180,000)
Cash flows from investing activities:		
Interest income	4,125	2,174
Other	166	21
Net cash provided by investing activities	4,291	2,195
Net increase (decrease) in cash and cash equivalents	8,538	(5,805)
Cash and cash equivalents - beginning of year	119,001	124,806
Cash and cash equivalents - end of year	<u>\$127,539</u>	<u>\$119,001</u>
Cash flows from operating activities:		
Income from operations	(\$44,038)	(\$65,593)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55,590	55,590
(Increase) decrease in:		
Accounts receivable	2,213	2,800
Increase (decrease) in:		
Accounts payable	(11)	(294)
Accrued expenses	493	(3)
Net cash provided by operating activities	<u>\$14,247</u>	<u>(\$7,500)</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Water Fund
February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$124,157	\$125,934
Accounts receivable, net	8,466	11,678
Inventory	<u>10,800</u>	<u>10,800</u>
Total current assets	<u>143,423</u>	<u>148,412</u>
Capital assets - depreciable, net	<u>1,478,509</u>	<u>1,534,278</u>
Total assets	<u><u>\$1,621,932</u></u>	<u><u>\$1,682,690</u></u>
Liabilities		
Accounts payable	\$1,382	\$1,757
Accrued wages and other payroll liabilities	<u>697</u>	<u>332</u>
Total liabilities	<u>2,079</u>	<u>2,089</u>
Net assets		
Invested in capital assets, net of related debt	1,478,509	1,534,278
Unrestricted	<u>141,344</u>	<u>146,323</u>
Total net assets	<u>1,619,853</u>	<u>1,680,601</u>
Total liabilities and net assets	<u><u>\$1,621,932</u></u>	<u><u>\$1,682,690</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Water Fund
For the years ended February 28, 2007 and 2006

	2007	2006
Operating revenues		
Service charges	\$64,355	\$67,138
User fees	575	1,762
Hydrant rental	6,200	6,200
Total operating revenues	<u>71,130</u>	<u>75,100</u>
Operating expenses		
Salaries and wages	22,729	14,689
Fringe benefits	1,711	1,103
Supplies	15,303	34,075
Contracted services	10,367	11,075
Rentals	5,180	1,352
Repairs	9,519	7,705
Utilities	8,764	7,813
Depreciation	55,770	55,770
Miscellaneous	4,828	3,344
Total operating expenses	<u>134,171</u>	<u>136,926</u>
Operating income (loss)	(63,041)	(61,826)
Non-operating revenues (expenses)		
Interest income	3,808	1,389
Other	8,485	8,105
Total non-operating revenues (expenses)	<u>12,293</u>	<u>9,494</u>
Other financing sources (uses)		
Operating transfers (out)	(10,000)	-
Net income (loss)	(60,748)	(52,332)
Net assets - beginning of year	<u>1,680,601</u>	<u>1,732,933</u>
Net assets - end of year	<u>\$1,619,853</u>	<u>\$1,680,601</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Water Fund
For the years ended February 28, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Receipts from customers	74,342	\$81,598
Payments to suppliers / outsiders	(54,337)	(67,373)
Payments to employees	(24,075)	(15,494)
Net cash provided by operating activities	(4,070)	(1,269)
Cash flows from non-capital financing activities:		
Operating transfers (out)	(10,000)	-
Net cash provided by non-capital financing activities	(10,000)	-
Cash flows from investing activities:		
Interest income	3,808	1,389
Other	8,485	8,105
Net cash provided by investing activities	12,293	9,494
Net increase (decrease) in cash and cash equivalents	(1,777)	8,225
Cash and cash equivalents - beginning of year	125,934	117,709
Cash and cash equivalents - end of year	\$124,157	\$125,934
Cash flows from operating activities:		
Income from operations	(\$63,041)	(\$61,826)
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation	55,770	55,770
(Increase) decrease in:		
Accounts receivable	3,212	6,498
Increase (decrease) in:		
Accounts payable	(376)	(2,009)
Accrued expenses	365	298
Net cash provided by operating activities	(\$4,070)	(\$1,269)

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Net Assets
Internal Service Fund
February 28, 2007

	<u>2007</u>
Assets	
Cash and cash equivalents	<u>\$57,615</u>
Total current assets	<u>57,615</u>
Capital assets - depreciable, net	<u>76,814</u>
Total assets	<u><u>\$134,429</u></u>
Liabilities	
Current portion of long-term debt	<u>\$38,300</u>
Total current liabilities	<u>38,300</u>
Capital lease	<u>39,785</u>
Total liabilities	<u>78,085</u>
Net assets	
Unrestricted	<u>56,344</u>
Total net assets	<u>56,344</u>
Total liabilities and net assets	<u><u>\$134,429</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Fund
For the year ended February 28, 2007

	<u>2007</u>
Operating revenues	
Service charges	<u>\$61,704</u>
Total operating revenues	<u>61,704</u>
Operating expenses	
Depreciation	<u>38,142</u>
Total operating expenses	<u>38,142</u>
Operating income (loss)	23,562
Non-operating revenues (expenses)	
Interest	(5,022)
Interest income	<u>411</u>
Total non-operating revenues (expenses)	<u>(4,611)</u>
Net income (loss)	18,951
Net assets - beginning of year	45,400
Prior period adjustment	<u>(8,007)</u>
Net assets - end of year	<u><u>\$56,344</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Cash Flows
Internal Service Fund
For the year ended February 28, 2007

	<u>2007</u>
Cash flows from operating activities:	
Receipts from customers	\$61,704
Payments to suppliers / outsiders	-
Payments to employees	-
	<u>61,704</u>
Net cash provided by operating activities	
Cash flows from capital and related financing activities:	
Principal payments	(44,878)
Interest expense	(5,022)
	<u>(49,900)</u>
Net cash from capital and related financing activities	
Cash flows from investing activities:	
Interest income	411
	<u>411</u>
Net cash provided by investing activities	
Net increase (decrease) in cash and cash equivalents	12,215
Cash and cash equivalents - beginning of year	<u>45,400</u>
Cash and cash equivalents - end of year	<u>\$57,615</u>
 Cash flows from operating activities:	
Income from operations	\$23,562
Adjustments to reconcile net income	
to net cash provided by operating activities:	
Depreciation	<u>38,142</u>
Net cash provided by operating activities	<u>\$61,704</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Statement of Fiduciary Net Assets
Fiduciary Funds
February 28, 2007 and 2006

AGENCY FUND

Assets	<u>2007</u>	<u>2006</u>
Cash - payroll account	-	\$4,580
Cash - tax account	<u>\$864</u>	<u>32</u>
Total assets	<u><u>\$864</u></u>	<u><u>\$4,612</u></u>
Liabilities		
Payroll taxes and other withholdings payable	-	\$4,580
Due to other funds	<u>\$864</u>	<u>32</u>
Total liabilities	<u>864</u>	<u>4,612</u>
Net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u><u>\$864</u></u>	<u><u>\$4,612</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd
Schedule of Long-Term Debt
For The Year Ended February 28, 2007

<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Maturing Per Year</u>	<u>Outstanding March 1, 2006</u>	<u>Retired</u>	<u>Outstanding February 28, 2007</u>
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Capital Leases

**Isabella County - Shepherd Sanitary Sewer / Storm Water Separation Project Refunding Bonds
Series 1999**

Due March 1,

1999	4.20	-	-	-	-
2000	4.20	\$30,000	-	-	-
2001	4.20	30,000	-	-	-
2002	4.20	160,000	-	-	-
2003	4.20	160,000	-	-	-
2004	4.20	180,000	-	-	-
2005	4.20	180,000	-	-	-
2006	4.20	180,000	-	-	-
2007	4.20	190,000	\$190,000	\$190,000	-
2008	4.20	190,000	190,000	-	\$190,000
2009	4.25	190,000	190,000	-	190,000
2010	4.30	190,000	190,000	-	190,000
2011	4.40	190,000	190,000	-	190,000
2012	4.50	190,000	190,000	-	190,000
2013	4.50	190,000	190,000	-	190,000
2014	4.60	210,000	210,000	-	210,000
Totals		<u>\$2,460,000</u>	<u>\$1,540,000</u>	<u>\$190,000</u>	<u>\$1,350,000</u>

Maturities on March 1, 2006 or prior - non-callable.

Maturities after March 1, 2006 - redeemed at par.

Vehicle Leases

Due June 1,

2004	3.88	\$40,259	-	-	-
2005	3.88	35,495	-	-	-
2006	3.88	36,871	\$36,871	\$36,871	-
2007	3.88	38,300	38,300	-	\$38,300
2008	3.88	39,785	39,785	-	39,785
Totals		<u>\$190,710</u>	<u>\$114,956</u>	<u>\$36,871</u>	<u>\$78,085</u>

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Village Council
Village of Shepherd
Shepherd, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shepherd as of and for the year ended February 28, 2007, which collectively comprise the Village of Shepherd's basic financial statements and have issued our report thereon dated August 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Shepherd's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as 2007-1 and 2007-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2007-1 and 2007-2 are not material weakness.

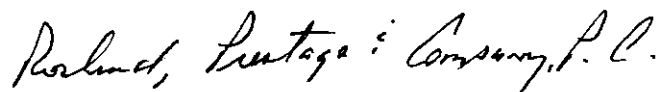
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Shepherd's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management in a separate letter dated August 23, 2007.

The Village of Shepherd's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Village's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of the audit committee, management, Village Council, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

August 23, 2007

Village of Shepherd
Schedule of Findings and Responses

Finding 2007-1

Finding considered a significant deficiency

Effective for the year ended February 28, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended February 28, 2007 required numerous audit adjustments, most of which the staff was aware needed to be recorded. The staff of the Village does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We expect this situation to be ongoing in future years.

Finding 2007-2

Finding considered a significant deficiency

The Village currently has an informal policy that requires someone other than the preparer (other staff members or members of the village council) review all completed bank reconciliations on a monthly basis. This procedure is performed sporadically and is not well documented.

Internal control is most effective when the bank reconciliations are prepared by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of office employees, we recommend that this review procedure be incorporated into the formal accounting policies and performed monthly. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements.

At the same time we also recommend that the reviewer open the bank statements and review them for any unusual transactions. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

All reconciliations should be signed and dated by individuals preparing them as well as by the reviewers. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

Client Response

We are aware of this deficiency and we are in the process of establishing formal procedures and incorporating these procedures into our accounting policies as recommend.



MANAGEMENT LETTER

Members of the Village Council
Village of Shepherd
Shepherd, Michigan

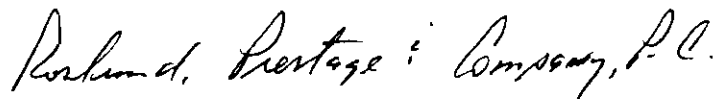
In planning and performing our audit of the financial statements for the Village of Shepherd for the fiscal year ended February 28, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated August 23, 2007 on the financial statements of the Village of Shepherd.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



ROSLUND, PRESTAGE AND COMPANY, P.C.
Certified Public Accountants

August 23, 2007

Village of Shepherd
February 28, 2007

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

We were pleased to see that management has implemented many of the recommendations we included in our previously issued Management Letter. We commend you on your efforts to strengthen internal controls and operating efficiencies.

We have listed below the comments and related recommendations we included in our previously issued Management Letter in which the recommendations we suggested, or an appropriate alternative, have not been fully implemented as of the date of this report.

Council Oversight

Prior Year Comment and Recommendation

The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Therefore, we recommend that the members of the Village Council maintain a level of involvement in the financial affairs of the Village to provide appropriate oversight and independent review functions.

Current Status

The Village Council currently provides oversight and independent review functions. We recommend that they review their current procedures and carefully consider expanding the review functions and adopt policies to insure that these functions are performed on a regular basis and are adequately documented.

Cash Transfers

Prior Year Comment and Recommendation

During our audit we found that some transfers of cash from one account to another was not posted correctly. This activity was reflected in the revenues and expenditures instead of posting the activity between the cash accounts. Consequently, year end adjustments were necessary so as not to overstate the revenues and expenditures.

We recommend that all cash transfers be posted only to those cash accounts affected and not to any other accounts.

Village of Shepherd
February 28, 2007

Current Status

The posting of cash transfers has improved since last year. However, we again found that some transfers of cash from one account to another were not posted correctly.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Review Vendor Lists

We recommend that management periodically review vendor lists for any unusual patterns, such as names that may be similar, but not identical to the names of approved vendors and vendors that have multiple addresses. In addition, the person periodically should inspect files of unpaid invoices and vendor statements to look for invoices that appear different from the norm; consecutive vendor invoice numbers; preprinted and not customized forms; different delivery addresses; different telephone numbers, purchase order numbers, item descriptions, prices, or other unusual patterns; old or unusual vendors who recently had an address change; or current activity on an old or outdated vendor. Such a review can detect possible fraud involving accounts payable.

If the validity of a vendor is questioned, an appropriate person should take steps to verify the vendor's existence. Perhaps the most effective way to verify a vendor is to call the vendor and visit the vendor's facilities.

Alternatively, an appropriate person can consult other information sources, such as the Better Business Bureau, credit reporting companies (such as Dun & Bradstreet), crisscross and telephone directories, secretary of state incorporation records, or local partnership and assumed name records.

Chart of Accounts

In April 2002 the State of Michigan issued an updated *Uniform Chart of Accounts for Counties and Local Units of Government* pursuant to the issuance of GASB 34. We have provided a copy of this document to management. We recommend that management review the new chart of accounts and continue to make the necessary changes to be in compliance.

We also recommend that all unnecessary accounts be removed from the current chart of accounts.

Village of Shepherd
February 28, 2007

Eliminate Debt Service Fund

The Debt Service Fund (Storm Water Separation Project Debt Service Fund) was established to account for: 1) the payment of the principal and interest on the bonds issued to finance the storm water separation project, and 2) the revenues collected to make such payments.

The revenues collected to make the payments on the bonds consist of a special assessment levied on the property and user fees collected from those using the water/sewer system. The bonds are accounted for in the Sewer Fund as well as the related assets acquired with the bond proceeds. Year-end adjustments in the Sewer Fund are necessary to reflect the proper reduction in the bond debt that was paid out of the Debt Service Fund. This would not be necessary if all of the activity in the Debt Service Fund was recorded in the Sewer Fund. A debt service fund is not required in this case.

Therefore, we recommend that the Village consider closing the Debt Service Fund and recording this activity in the Sewer Fund.

Review General Ledger Monthly

In order to make the financial reports generated by the accounting system as meaningful as possible, management should review the general ledger for posting errors and unusual account balances on a monthly basis. Account balances that are unusually high or low should be investigated and, if necessary, adjusted before processing the next month's activity. Scanning the activity in each account can help to identify posting errors. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.